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FISCAL IMPACT STATEMENT

LS 7300

BILL NUMBER: HB 1547

NOTE PREPARED: Jan 13, 2013

BILL AMENDED:

SUBJECT: Indiana College Graduate Employment Credit.

FIRST AUTHOR: Rep. Turner

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a nonrefundable state income tax credit to an individual who: (1) graduates from an Indiana institution of higher education (IHE) after December 31, 2013; and (2) reside and work in Indiana. The credit amount is based on the number of months in which the person resides and is employed in Indiana with a maximum credit of \$1,000. The taxpayer may claim the credit for as long as they are employed and reside in Indiana or 10 consecutive years, whichever occurs first.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary* - This bill provides a tax credit to people who graduate from an Indiana IHE beginning in 2014 and who live and work in Indiana for any part of the taxable year beginning in tax year 2014. The tax credit could potentially reduce Adjusted Gross Income (AGI) Tax revenue by an estimated \$14.5 M to \$15 beginning in FY 2015 and an estimated \$40 M to \$41.5 in FY 2016. Given that the credit may be claimed for ten years after graduation, the revenue loss would continue to grow for the first 10 years until the number of individuals claiming the credit for the first time equal those going off the credit after 10 years.

Background Information - The tax credit equals \$1,000 for taxpayers who reside and are employed in Indiana

for an entire taxable year. For those who reside and are employed in Indiana for less than the taxable year, their credit is prorated by the number of qualifying months. The taxpayer must graduate with a bachelor's, master's or a doctorate degree from an Indiana IHE after December 31, 2013, to qualify for the credit. A taxpayer graduating from an Indiana institution in May 2014 would first be entitled to the credit in tax year 2014, provided they live and work in Indiana by August 2014. If not, the taxpayer would have to wait to begin claiming the credit until a subsequent tax year in which they qualify. However, this waiting period cannot exceed five years after the taxpayer's graduation. A couple filing a joint return is eligible for their respective credit amounts. Eligibility for the credit ends when the taxpayer has received the credit for 10 consecutive tax years or does not reside and is not employed in Indiana, whichever occurs first. The credit may not be refunded, carried back, or carried forward. All revenue collected from the AGI Tax on individuals is deposited in the state General Fund.

A study conducted by the Indiana Fiscal Policy (IFP) found that about 36% of Indiana graduates leave the state after receiving a college degree. That percent is much higher for non-resident students. The study also found that 7.6% of the graduates return to the state within 6 years of leaving.

A model was developed using the number of qualifying degree recipients from Indiana IHEs as a base which are reported by the Integrated Postsecondary Education Data System (IPEDS). The model uses the IFP statistics, IPEDS degree recipients, and labor participation data from the Bureau of Labor Statistics to arrive at the revenue estimates. The model assumes that 40% of the qualifying taxpayers would receive the full credit in the year of graduation. All other completers receive a prorated award in the first year. The variation in the estimates are based on different growth rates used to forecast the number of qualifying taxpayers. The lower bound is uses Indiana IHE enrollment to predict future graduates. While the upper bound is based on the number of qualifying degrees awarded. The table shows the model results for FY 2015 through FY 2019.

Cohort Year	Fiscal Year	Estimated Claimers	Estimated Credit Amount (\$ in millions)
2014	2015	24,200 - 25,000	\$14.5 - \$15.0
2015	2016	49,800 - 51,800	\$40.0 - \$41.5
2016	2017	76,900 - 80,480	\$66.8 - \$69.8
2017	2018	105,500 - 111,000	\$95.3 - \$100.0
2018	2019	135,600 - 143,400	\$125.2 - \$132.1

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Indiana Fiscal Policy Institute, *Graduate Migration from Indiana's Postsecondary*

Institutions, March 1999; Indiana University, *FYIU - Student Migration*, July 2007; Bureau of Labor Statistics, *Employment Situation - December 2012: Table A-4*, January 4, 2013; IPEDS Data Center - Fall Degree Enrollment 1980 - 2011; NCES , *Table A-37.1: College Students Employed by Attendance Status*, 1970 - 2010; NCES, *Table A-47.1: Number of degrees conferred by degree granting institutions*, Fall 2000 - Fall 2010.

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